

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 March 2015

Present:

Mr G N Cook

Councillors Farthing, Forbes, N Wright and Mr M Knowles.

In Attendance:

Sonia Tognarelli (Director of Finance), Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Fiona Brown (Chief Operating Officer, People Services), Mark Kirkham (Mazars), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Speding and T Wright.

Minutes

32. RESOLVED that the minutes of the meeting of the Committee held on 6 February 2015 be confirmed and signed by the Chair as a correct record subject to the inclusion of Councillor Forbes in the list of apologies.

Corporate Assurance Map 2014/2015 – Update

The Head of Assurance, Procurement and Projects presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control and the performance of Internal Audit.

Members were directed to the map itself and were informed that both the Strategic and Corporate Risk Areas had remained unchanged from the last update report. The first and second line of assurance remained the same and it was highlighted that

planned activity had been added to the map for ICT in the last quarter but there was not yet an assurance opinion so that area had remained white.

The Head of Assurance, Procurement and Projects referred to the red rating from Internal Audit for Information Governance and reminded Members that this had also been red at the time of the last update report. However, improvement continued to be seen in this area and it would continue to be monitored with further detail being brought back to the Committee if the rating remained red in the future. There were two red areas in the External Assurance column in relation to Children's Safeguarding which Members were aware of from previous meetings.

It was reported that the Council's audit plan for the year had included 71 audits but it was not now considered appropriate to carry out four of these: Sunderland Partnership; the Multi Agency Safeguarding Hub (MASH); Community Family and Wellbeing; and Corporate Service Planning arrangements. The reasons for this had been fully set out within the report and the Head of Assurance, Procurement and Projects reported that 94% of the planned audits would be completed within the year.

Members were directed to Appendix 3 of the report which showed the work of the Risk and Assurance team and the Head of Assurance, Procurement and Projects highlighted the range of major projects and service reviews in which the team were involved and added that this should give comfort to the Committee that the Risk and Assurance team was supporting all of this vital work.

With regard to the Key Performance Indicators (KPIs) for Internal Audit, the level of the implementation of medium risk recommendations was 83%, which was an improvement from 82% at the time of the last report. However, the percentage of high and significant recommendations being implemented stood at 94% against a target of 100%. This 6% related to one recommendation around the testing of emergency lighting in operational buildings which had not been implemented by the due date.

Councillor Farthing asked if a new implementation date had been set for this recommendation and the Head of Assurance, Procurement and Projects said that the end of June had been suggested. Councillor Farthing stated that she felt that this was rather late and the matter was a health and safety risk. She suggested that a message needed to be sent that this was not acceptable and the Chair agreed that this should come from the Committee as a whole.

Mr Knowles asked about the timescales for the planned activity in the ICT column and also for the assessment of Information Governance. The Head of Assurance, Procurement and Projects advised that there would be a view on ICT for the next quarterly update on the Corporate Assurance Map. The Committee were informed that if an improvement was not seen in Information Governance by the deadline for the next meeting, then the Corporate Risk Area would change from amber to red and a senior officer would be asked to attend the Committee to answer questions from Members.

The Committee had received reports throughout the year in relation to Children's Safeguarding and Fiona Brown, Chief Operating Officer, People Services was in

attendance to provide an update on the improvement activity being carried out. Fiona circulated copies of the Executive Director's fortnightly email to staff and the team brief which enabled the Executive Director, Heads of Service and senior and operational managers to have a dialogue with staff on a range of activities. An engagement schedule was now in place until the end of the year, meetings were taking place between the Executive Director and the lead social worker and there were focus groups with staff. Visits were also taking place to each team and the Chief Executive, the Executive Director and the Leader of the Council had been involved in these.

A 'Back to Basics' programme for training and completion of case file audits had been implemented and there were a number of modules including updates on the national landscape for children's services, toolkits for the voice of the child, inductions refresher training and preparation for Ofsted.

Feedback from staff had been that the Improvement Plan was helpful and 92% said that practice would definitely improve. The training programme had initially been delivered in the Coalfields and North area of the city and would be rolled out to all teams. It was intended that this would become multi agency training in the future.

In terms of recruitment, by the end of February 2015, six additional FTE social workers were in post and officers were hopeful that the long term target of recruiting three social workers a month would be achieved. An additional ten social workers would come into the organisation through the Social Work Academy, which was to begin operating in April 2015.

Fiona advised that the scrutiny review was going well and that priorities for the next few months had been identified as recruitment, data quality and frontline practice. Activity continued in relation to preparation for Ofsted and to achieve a greater level of assurance.

The Chair asked about the satisfaction rating which staff had felt about the Improvement Plan, as Fiona had quoted 60%. This was clarified in that 60% had rated its usefulness as 4 out of 5 and 40% had given it 5 out of 5.

Councillor N Wright commented that she could understand staff were feeling somewhat overwhelmed by what was happening but these changes were needed. From her perspective as Chair of the Scrutiny Committee, Councillor N Wright stated that the Committee were pleased with what they were hearing. A number of questions had been received from other elected Members and the Executive Director of People Services had been asked to send a synopsis on developments in the service area to all councillors to ensure that they were fully informed about the scrutiny overview. Councillor N Wright also advised that she had met with the new Chair of the Sunderland Safeguarding Children Board and he was also reassured about the positive changes which had been made.

Councillor Farthing suggested that customers and those making referrals should be surveyed to see if the service was meeting expectations. She also proposed that the methods of referral be checked, emphasising that senior managers needed to be aware of how this was working and should try to test the service.

Fiona advised that the MASH had been reviewed and the access point made clear so that only safeguarding issues were referred there. A number of staff had been moved into the Customer Service Network so that there was a triage system in place to direct referrals and 'mystery shopping' had been carried out to test the contacts to teams. There had also been a discussion with partners on the thresholds for referrals and Councillor Farthing's suggestions would be taken on board. Councillor N Wright stated that the Scrutiny Committee would review and re-evaluate over the next year and would keep a watching brief on developments.

Upon consideration of the report, it was: -

33. RESOLVED that the updated Corporate Assurance Map 2014/2015 be noted.

Corporate Assurance Map 2015/2016

The Head of Assurance, Procurement and Projects submitted a report inviting the Committee to consider and comment on the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2015/2016.

It was considered that the Corporate Assurance Map in its current form was still fit for purpose and had remained the same as the 2014/2015 Map. The Council was changing in terms of owning companies and moving into joint venture arrangements and consideration needed to be given to how assurance may be sought from arm's length bodies and fed into the Council's overall map. This work had not been completed as yet but proposals would be brought forward on this issue.

Members were informed that the Strategic Risk Areas would be updated once the Council's Corporate Plan was reviewed. The Internal Audit Plan was attached as Appendix 1 to the report and it was highlighted that if the residual risk for any of the Corporate Risk Areas had increased, this was reflected within the plan. By way of an illustration, the residual risk for 'Legality' had increased from 25% to 31%, as changes in the Council meant that with less people to manage this, there would be an increased risk. The driver for the increase in risk was related to the pace of change taking place within the organisation and the risk associated with 'Payroll' was also judged to have increased from 23% to 40% as a result of the significant amount of changes likely to occur as a result of the Workforce Transformation Project.

The plan of activity for the Risk and Assurance team was detailed at Appendix 2 to the report and was deliberately high level as the team would work with managers to cover all large changes and risk areas and provide support and assurance in relation to key projects where there were major changes to services and alternative models of delivery were planned.

As part of the key areas of work for next year, officers were also looking at and planning for, future financial savings and would continue to track the progress of the actions included in the strategic risk profile. Internal Audit would also specifically

carry out work during the next quarter on the 'client' arrangements for the existing alternative service delivery models.

There would be a significant amount of change for the People Directorate in relation to the implementation of the Care Act and integration of services with the health sector through the Better Care Fund. This would be supported by the Risk and Assurance Team and dedicated resource would also be committed to ensure that the Council's ICT infrastructure was robust as well as supporting the review of how the service would be delivered to meet future demands.

The performance measures shown at Appendix 3 had remained the same as those for the 2014/2015 year and it was felt that these were still fit for purpose. The normal cycle of audits of key systems and counter fraud work would continue and the Committee would receive quarterly reports and an annual report at the end of the financial year.

The Chair commented that this was a large workload but it was good to note that the standard of the audit work was being maintained.

Councillor Farthing referred to the information about being 'ready for work' which the Committee had previously requested and noted that it did not include the number of people that had been sanctioned. The Chair agreed that this was an area that needed to be captured and the Head of Assurance, Procurement and Projects had been asked to follow this up. The Director of Finance highlighted that there would be local performance management of those statistics.

Councillor Forbes asked if the different companies were assisting or delaying what was required and whether there was any difficulty in assessing the impact of decisions being brought down to this level. The Head of Assurance, Procurement and Projects advised that this would be picked up by the Strategy, Policy and Performance team or the lead commissioner for the service. He added that he would expect this to be part of the Corporate Plan and that the scrutiny function would look at performance as part of its remit.

With regard to the planned activity for the Risk and Assurance team, Councillor N Wright queried the 30 days which had been estimated for the Workforce Transformation project. The Head of Assurance, Procurement and Projects acknowledged that this was a relatively small amount of time but was only to cover the remaining work to be undertaken after April 2015. Up until now, hundreds of days had been spent on this project, given its size and importance. 30 days had been estimated as it had been envisaged that the results of the trade union ballot on Workforce Transformation would have been known by this point and that there would not have been a great deal to do aside from checking payroll systems. If the ballot returned a 'no' vote then it would be necessary to flex this plan.

The Head of Assurance, Procurement and Projects assured Members that whatever resources and support were needed for this project would be made available, given its importance.

Having considered the proposed Corporate Assurance Map and plans of work for the Internal Audit and Risk and Assurance teams, it was: -

34. RESOLVED that the Corporate Assurance Map 2015/2016 and the supporting plans for the Internal Audit and Risk and Assurance teams for 2015/2016 be noted.

Proposed Forward Plan of Reports 2015/2016

The Director of Finance submitted a report presenting the proposed Forward Plan of reports for the Committee for 2015/2016.

There would be four quarterly meetings during the year at which the Committee would consider the Corporate Assurance Map alongside other reports and there would be an additional meeting scheduled for February in order to consider the Treasury Management Policy and Strategy for the following financial year.

Members considered the report and accordingly: -

35. RESOLVED that the proposed Forward Plan of reports for 2015/2016 be agreed.

Member Training and Development

The Director of Finance submitted a report which was intended to provide members of the Committee with an opportunity to identify areas in which they required any further training, refresher or awareness sessions to be arranged.

The Director of Finance suggested the agreed Forward Plan of reports may provide Members with a reference for any areas for which they would like to receive further training or awareness sessions. It was proposed that there be an update at the next Committee meeting on the changes taking place in the Council. The Chair supported this proposal.

36. RESOLVED that: -
- (i) an update on significant changes taking place in the Council or being proposed be agreed; and
 - (ii) Members consider any further areas for training sessions which may be required.

External Auditor – Audit Strategy Memorandum 2014/2015

The Director of Finance submitted a report which presented the external auditor's Audit Plan which notified the Council of the work which they were proposing to

undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2014/2015.

Mark Kirkham, Engagement Lead from Mazars, was in attendance to outline the Audit Strategy Memorandum and to respond to Members' questions. Mark advised that the planning duties of the external auditors were unchanged from previous years and there was stability in these, even with the demise of the Audit Commission.

The Audit Strategy memorandum summarised the audit approach, highlighted significant risks and provided details of the audit team. Mark referred to the concept of materiality detailed in Appendix B which showed that the threshold for material errors in the Accounts (which would in effect qualify the Accounts) had been set, at the planning stage, as £7.57m and the triviality threshold being set at £227,000, beyond which identified errors would not usually be reported. The threshold for materiality would be revised as the audit progressed should further information be received.

Councillor Farthing asked, with regard to triviality, if it would be reported if a significant number of trivial items were identified. Mark stated that if the auditors had a sense that something was not right, then further work may be carried out and no course of action would be ruled out.

Turning to section 3 of the Memorandum, Gavin Barker drew Members' attention to the significant risks which had been identified for the audit. In accordance with the International Standards on Auditing, the external auditors were required to consider management override of controls and revenue recognition as significant risks.

Pension estimates was another identified risk due to the figures being subject to significant volatility and the very high figures involved. The Council's investment in Siglion LLP had also been identified as a risk as this was a new and unique arrangement and Mazars wanted to review the proposed accounting treatment and assess it against the requirements of the CIPFA Code of Accounting Practice and International Accounting Standards, as well as the Capital Financing Regulations.

Mazars were also required to reach a Value for Money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. The significant risk which would be addressed through the work was related to the financial pressures being faced by the Authority and the public sector as a whole and the need for arrangements to be made to address these. They were aware that the Council had detailed plans in place and had already achieved significant savings to date.

The Committee were advised of the audit team from Mazars who would carry out the work and it was highlighted that the team would also include an independent partner to scrutinise what was being done. In relation to independence, it was noted that Mazars also acted as external auditors for Sunderland Care and Support Limited but this did not create any unacceptable threat to Mazars' independence. The proposed audit fee for the 2014/2015 financial statements was £191,332 in total which was a slight overall reduction from the equivalent 2013/2014 fee.

Councillor Farthing referred to the pension estimates risk and queried if the Actuary's view was checked independently, particularly as the Tyne and Wear Pension Scheme was a very large fund. The Director of Finance stated that an annual discussion took place on actuarial rates and how assessments were made and this was also picked up with other finance directors in the area. The actuary also had to publish annually (and these were also subject to external audit) on the basis of their estimates and assessments used in providing the Council with its Pension Fund disclosures.

Having thanked Mazars for the presentation of the Audit Strategy Memorandum, it was: -

37. RESOLVED that the contents of the report be noted.

External Auditor – Audit Progress Report

The Director of Finance submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to March 2015.

Gavin Barker reported that the majority of the work undertaken in recent weeks had been the completion of audit planning and the preparation of the Audit Strategy Memorandum. The detailed audit work was now underway.

The programme of workshops provided for finance staff in relation to accounting and audit issues had been extended this year to include matters such as infrastructure, group accounts and closing down the accounts at an earlier stage. The Council fully participated in these workshops.

Members were informed that the Audit Commission would formally close on 31 March 2015 and its functions would be transferred to a number of different bodies including the Local Government Association, the National Audit Office and the Cabinet Office. The full detail of how the current functions would be discharged from 1 April 2015 was included within the report.

Having considered the report, it was: -

38. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair